



PATTONSBURG R-II SCHOOL DISTRICT

DAVIESS COUNTY/DEKALB COUNTY/GENTRY COUNTY, MISSOURI

YEAR ENDED JUNE 30, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-16
March 22, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the Pattonsburg R-II School District.

NOTE: The following findings are included in the report. Recommendations as well as responses from the district which correspond with the findings below are included in the report.

A problem with accounting reports from the district, to the Department of Elementary and Secondary Education (DESE), led to an overpayment of state aid to the district. A mistake was made when state assessed railroad and utility taxes were not properly recorded on accounting records. The district stated similar mistakes will be avoided in the future due to accounting system upgrades.

Expenditures exceeded budgeted amounts in various district funds. The district has agreed to implement audit recommendations to solve this problem. The district points to recovery efforts from past flooding and fire as being obstacles in the past. Again, the district stated it will seek to improve budgeting procedures in the future.

Major purchases and construction projects totaling just less than \$300,000 were undertaken without competitive bidding. The district agrees that policies concerning bidding would have to be reviewed. Our recommendations include written agreements for all leases and solicitation of bids for all major purchases and construction projects.

Other findings relating to employee leave records, mileage calculations, and tuition costs are also addressed in the audit.

History of the School District -- (See page 4)

YELLOW SHEET

PATTONSBURG R-II SCHOOL DISTRICT
DAVIESS COUNTY/DEKALB COUNTY/GENTRY COUNTY, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-2
HISTORY AND ORGANIZATION	3-4
MANAGEMENT ADVISORY REPORT	5-25
SUMMARY OF FINDINGS	6-7

<u>Number</u>	<u>Description</u>	
1.	Accounting System and Financial Reporting.....	8
2.	Budgets and Published Financial Statements.....	10
3.	Bidding and Procurement Procedures	12
4.	Expenditures	14
5.	Personnel Contracts and Procedures	16
6.	Pupil Transportation Procedures	19
7.	Non-Resident Pupils	20
8.	Parents as Teachers (PAT) Program	21
9.	Student Activity Funds.....	24
10.	Board Policies and Procedures.....	26
11.	General Fixed Asset Records and Procedures	27



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Education
Pattonsburg R-II School District
Pattonsburg, MO 64670

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Pattonsburg R-II School District. The school board had engaged Lockridge, Constant, and Conrad, LLC, Certified Public Accountants (CPAs), to perform an audit of the district for the year ended June 30, 1998. To minimize any duplication of effort, we reviewed the report and substantiating workpapers of the CPA. Our audit of the school district included, but was not limited to, the year ended June 30, 1998. The objectives of this audit were to:

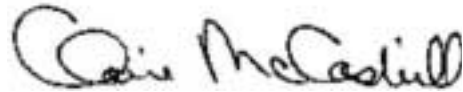
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, school district policies, and various school district financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district and its audited financial reports and was not subjected to auditing procedures applied during our audit of the district.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the Pattonsburg R-II School District.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill
State Auditor

January 5, 1999

HISTORY AND ORGANIZATION

PATTONSBURG R-II SCHOOL DISTRICT
DAVIESS COUNTY/DEKALB COUNTY/GENTRY COUNTY, MISSOURI
HISTORY AND ORGANIZATION

The Pattonsburg R-II School District is located approximately 70 miles north of Kansas City on Interstate 35. It is located in the northwest half of Daviess County, but lies in all, or part, of seven townships in three counties.

The district operates a high school (7-12), an elementary school (K-6), and a pre-school (ages 3 and 4). Enrollment was approximately 209 for the 1997-98 school year. The district employs approximately 39 full and part-time employees, including 3 administrators, 26 teachers, and 10 support staff.

Pattonsburg R-II School District has been classified under the Missouri School Improvement Program as "Accredited" by the Missouri Department of Elementary and Secondary Education.

A seven-member Board elected for three-year terms, serves without compensation as the policy-making body for the district's operations. Members of the Board at June 30, 1998 and their current terms of office are:

<u>Name and Position</u>	<u>Current Term Expires</u>
Donald Burns, President	April 1999
James Woodward, Jr., Vice President	April 2000
Tommie Lowrey, Treasurer	April 2001
Merlin Bozarth, Member	April 2001
Greg Brown, Member	April 1999
Tom Lambert, Member	April 1999
Jerry Popplewell, Member	April 2000

<u>Other Principal Officials</u>	<u>Annual Compensation</u>
William E. Walker, Superintendent	\$ 55,303
Dr. Paula Johnson, High School Principal	39,449
Davy Snead, Elementary School Principal (1)	38,426

(1) Judy Brown became the Elementary School Principal in August 1998.
Assessed valuation and tax rate information for the school district were as follows:

	<u>1998</u>	<u>1997</u>
Assessed Valuation	\$7,691,055	\$6,685,824
Tax Rate	5.53	4.79

MANAGEMENT ADVISORY REPORT

PATTONSBURG R-II SCHOOL DISTRICT
DAVIESS COUNTY/DEKALB COUNTY/GENTRY COUNTY, MISSOURI
SUMMARY OF FINDINGS

1. Accounting System and Financial Reporting (pages 8-10)

District transactions were not always properly recorded on the accounting system or the Annual Secretary of the Board Report submitted to the Department of Elementary and Secondary Education. State assessed railroad and utility taxes were not properly recorded on accounting records, resulting in an overpayment of approximately \$44,000 in state aid for the 1997-98 school year.

2. Budgets and Published Financial Statements (pages 10-12)

Actual expenditures exceeded budgeted amounts in various district funds and budget documents did not contain some information required by state law. In addition, a summary of the district's audit report is not published as required by state law.

3. Bidding and Procurement Procedures (pages 12-14)

Bids were not obtained or bid documentation retained for construction and major purchases totaling approximately \$298,000. Written contracts were not obtained for leases.

4. Expenditures (pages 14-16)

Expenditures were not always adequately supported by purchase orders or approved invoices. Some invoices did not contain an authorized signature showing approval or receipt and some employee reimbursements were not accounted for adequately. Additional compensation paid to employees was not always reported on W-2's, and IRS Forms 1099-MISC were not always prepared. Some expenses do not appear to be a prudent use of public funds.

5. Personnel Contracts and Procedures (pages 16-18)

The district does not have a formal written policy for vacation leave and leave records are not maintained for some employees. Written employment contracts were not always prepared, retained and signed by the board president. During the year ended June 30, 1997, the district received exceptional pupil funding for a teacher's aide, although this individual primarily performed clerical duties. In addition, insurance proceeds designated for employees' personal items lost in a fire have not been disbursed.

6. Pupil Transportation Procedures (pages 19-20)

State guidelines for calculating actual mileage are not followed. Student count reports did not agree with attendance records for some count days.

7. Non-Resident Pupils (pages 20-21)

The district serves students from another school district at a tuition rate which does not comply with its admissions policy for charging tuition to non-resident students.

8. Parents as Teachers (PAT) Program (pages 21-24)

The district currently does not have an operating PAT program. Final reports submitted to the Missouri Department of Elementary and Secondary Education were not supported by documentation on file. The district does not have guidelines outlining compensation of the PAT employees. Records maintained for the PAT library are incomplete.

9. Student Activity Funds (pages 24-26)

The high school cheerleader fund was held outside the school district treasury. Student activity fund records were not complete and proper controls over receipts and expenditures were not established. In addition, student activity fund transactions were not always correctly recorded on accounting records.

10. Board Policies and Procedures (pages 26-27)

Minutes did not always include the information supporting a closed meeting as required by state law. In addition, board minutes are not signed when approved. The school board policy manual is not on file.

11. General Fixed Asset Records and Procedures (pages 27-28)

The district has not established adequate records for property owned by the district.

PATTONSBURG R-II SCHOOL DISTRICT
DAVIESS COUNTY/DEKALB COUNTY/GENTRY COUNTY, MISSOURI
MANAGEMENT ADVISORY REPORT

1.	Accounting System and Financial Reporting
-----------	--

The school district maintains a computerized accounting system for processing revenue and expenditure transactions. Our review of the accounting system, financial procedures, and related financial reports revealed the following areas of concern:

A. To establish consistency and accountability among school districts, the Missouri Department of Elementary and Secondary Education (DESE) provides districts with financial recording guidelines in the *Missouri Financial Accounting Manual*. The DESE has established account codes to track revenues, expenditures, and other transactions. During our review, we noted numerous instances in which the DESE guidelines were not followed, and incorrect accounting codes were used when recording transactions. Some instances are noted below:

- 1) During the year ended June 30, 1998, expenditures totaling \$450 which should have been coded to the district's professional development program were incorrectly coded to substitute teacher salaries. Transfers were made to correct the errors after we brought this to the district's attention. The DESE requires the school districts to track professional development expenditures under a separate account code to ensure compliance with Section 160.530, RSMo 1994. Without proper coding and tracking of professional development expenditures, the district is unable to effectively monitor compliance with state law.
- 2) During the two years ended June 30, 1998, the district did not adequately track and account for "Children At-Risk" program expenditures. For the year ended June 30, 1997, expenditures coded to the "Children At-Risk" program totaled only \$5,692, while the district reported program expenditures of approximately \$95,000 on the Annual Secretary of the Board Report (ASBR) submitted to the DESE. District personnel indicated that, at year-end, expenditures allowable under the "Children At-Risk" program are combined to determine the total expenditures reported on the ASBR; however the district could not locate documentation to support the amount reported on the 1997 ASBR.

During the year ended June 30, 1998, the entire salary of a district teacher was charged to the "Children At-Risk" program, although a portion of her salary was reimbursed through a federal program. Only the portion of the salary paid by the district should be coded to the "Children At-Risk" program.

The DESE requires districts to track "Children At-Risk" program expenditures under a separate account code, report total program expenditures on the district's ASBR, and classify any unspent funding as a restricted fund balance. By not properly recording transactions on the accounting system and the ASBR, the district is not in compliance with the DESE guidelines and cannot adequately monitor "Children At-Risk" program expenditures.

- B. The school district receives state assessed railroad and utility taxes annually which are collected by the various counties in which the district lies. Pursuant to Section 151.150, RSMo 1997 Supp., the counties apportion the railroad and utility taxes among the school districts for school purposes and capital projects. The amount to be distributed for school purposes is based on each district's September membership, while the amount to be distributed for capital projects is based on the capital project levy. During the years ended June 30, 1998 and 1997, the district received \$31,293 and \$45,786, respectively, in railroad and utility taxes.

The district receives state aid which is calculated and distributed by the DESE. The amount of state aid is based on a formula established under Section 163.031, RSMo 1997 Supp. The amount received during the previous year for school purposes from state assessed railroad and utility taxes is deducted from the district's current year entitlement under this formula.

During the year ended June 30, 1997, the district incorrectly recorded the state assessed railroad and utility tax receipts to the revenue code for "current taxes" instead of "state assessed railroad and utility taxes", the correct revenue code. Because of this error, the DESE did not include approximately \$44,000 received for school purposes from railroad and utility taxes as a deduction from the district's 1997-98 entitlement. As a result, it appears the district received approximately \$44,000 more in state aid than it was entitled to during the 1997-98 school year. This same recording error was made during the 1997-98 school year; however, after bringing the error to the district's attention, a transfer was made to correctly report the 1997-98 receipts under the proper revenue code. As a result, the 1998-99 state aid will not be affected.

Proper classification of receipts is necessary to ensure accuracy of the district's financial statements and the accuracy of the state aid calculation.

The DESE account code structure is designed as a means of efficient recordkeeping as well as a basic management tool. It also allows comparability of financial transactions among districts. Without consistent adherence to the DESE account code guidelines, the district's financial reports do not properly reflect the financial transactions of the district.

WE RECOMMEND the School Board:

- A. Require the DESE guidelines be followed when posting district transactions to ensure that financial reports are accurate and complete. In addition, the Board should ensure "Children At-Risk" program expenditures are adequately recorded and accounted for on the accounting system and financial reports submitted to the DESE, and file an amendment for fiscal years 1998 and 1997 with the DESE, if necessary.
- B. Ensure all state assessed railroad and utility taxes are properly recorded in the accounting records and resolve the overpayment for 1997-98 with the DESE.

AUDITEE'S RESPONSE

- A. *The district has installed a new financial accounting program in January 1998 that should prevent these errors from occurring again. In addition, we will instruct our staff to ensure the expenditures for "Children at Risk" are properly coded and designated as they are handled. We will review the errors noted for the "Children at Risk" program and determine if an amendment is required.*
- B. *We will discuss this issue with DESE to determine the proper method to handle this error.*

2.

Budgets and Published Financial Statements

- A. The budgets prepared by the district for the years ended June 30, 1998 and 1997, failed to comply with Chapter 67 of the Missouri statutes (the budget law). The annual budgets do not include actual (or estimated for the year not ended) receipts and disbursements for two preceding budget years. In addition, budgets did not include estimated beginning and ending balances for each fund. Without this information, the district cannot adequately evaluate available resources and financial condition.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area and provide a means to effectively monitor actual costs.

- B. For the years ended June 30, 1998 and 1997, the school district's actual expenditures exceeded the amounts originally budgeted for the following funds as illustrated below:

Fund	Budgeted Expenditures	Actual Expenditures	Actual Over Budgeted
<u>Year Ended June 30, 1998</u>			
General Fund	\$ 437,301	609,987	172,686
Special Revenue Fund	777,130	790,310	13,180
Capital Projects Fund	112,850	1,935,924	1,823,074
<u>Year Ended June 30, 1997</u>			
General Fund	385,951	647,677	261,726
Capital Projects Fund	16,850	877,705	860,855

On June 15, 1998, the school board approved a budget amendment to agree actual expenditures to budgeted expenditures; however, the amendment was made after the expenditures had been incurred. A similar amendment was made in June 1997 for the 1997 budget. It appears the amendments were made for statutory compliance only and circumvented the intended use of the budget as a management tool.

The budget process provides a means to allocate financial resources in advance. Failure to adhere to the expenditure limits imposed by the budgets weakens the effectiveness of this process. Section 67.040, RSMo 1994, allows for budget increases, but only after the governing body officially adopts a resolution setting forth the facts and reasons. Section 67.080, RSMo 1994, provides that no expenditure of public monies shall be made unless it is authorized in the budget. The School Board should require that timely budget to actual comparisons are received and reviewed prior to approving expenditures.

- C. Annual financial statements, as presented in the district's audit report, are not published as required by state law. Section 165.121, RSMo 1994 requires that a summary of the district's audit report including a statement of receipts, disbursements, and balances of each fund, be made and published in a newspaper within the county.

In addition to compliance with state law, published financial statements provide residents information about how district resources are being used and the resources available to meet the needs of the students.

WE RECOMMEND the School Board:

- A. Adopt annual budgets with complete information required by Chapter 67, RSMo.
- B. Ensure expenditures for individual funds do not exceed the amounts approved in the budget, unless proper and timely amendments are made prior to the expenditures.
- C. Prepare and publish a summary of the district's audit report as required by state law.

AUDITEE'S RESPONSE

- A. *We will implement this recommendation.*
- B. *Because of the many changes and problems occurring in the district over the past few years due to flooding and the fire, it has been difficult to make budget changes prior to expending funds from the specific accounts. We will improve this procedure in the future.*
- C. *We will follow this required procedure.*

3. Bidding and Procurement Procedures
--

- A. The school district is completing a multi-million dollar construction project to build new school facilities for all grade levels. Bids were not always solicited or advertised by the school district nor was bid documentation always retained for various expenditures relating to this construction project. Examples of expenditures without documentation of bids and/or advertisement are as follows:

<u>Item</u>	<u>Cost</u>
Telephone equipment	\$ 23,745
Dirt work	21,700
Dozing	10,509
Outer doors	4,232
Propane tank bases	4,000
Rock	2,687

The Superintendent indicated that, for some items, several vendors were contacted, and the telephone equipment was available from only one vendor. Documentation of these inquiries and sole source procurement situations, however, was not maintained. Section 177.086, RSMo 1997 Supp. requires that school districts advertise bids for construction of facilities which may exceed an expenditure of \$12,500. In addition, bidding procedures for construction projects provide a framework for economical management of school district resources and help assure the district that it receives fair value by contracting with the lowest and best bidder. Documentation of bids should always be retained as evidence of the district's established bidding procedures and to show statutory requirements are followed.

- B. The school district did not always solicit bids or retain bid documentation for other major purchases or leases. While district employees indicated bids are sometimes solicited

through telephone quotes or other direct contacts with vendors, documentation showing vendors contacted, prices quoted, and reasons for selecting the successful vendor was not retained for many purchases reviewed.

Examples of expenditures for items purchased or leased without documentation of bids are as follows:

<u>Item</u>	<u>Cost</u>
School bus lease/purchase	\$146,765
Trailer leases	44,600
Computers	20,076
Science lab equipment	9,900
Lockers	5,810
Piano	3,495

The district's purchasing procedures could be made more effective by adopting a written policy identifying specific bid procedures that are required for each type or size of expenditures. Bids can be handled by telephone quotation, by sealed bid, or by advertised sealed bid. Different approaches may be appropriate, depending on the dollar amount of the purchase. Written documentation of bids also provides evidence that the board has complied with its procurement policy. Bid documentation should include a list of vendors contacted, a copy of the bid specification, copies of all bids received, justification for awarding the bid, and documentation of discussions with vendors.

- C. The school district did not obtain a written lease agreement for the school bus lease/purchase shown above. Written agreements are necessary to ensure both parties are aware of the terms of the agreement. In addition, Section 432.070, RSMo 1994, requires contracts for political subdivisions to be in writing.

WE RECOMMEND the School Board:

A&B. Solicit bids for construction projects in accordance with state law and establish specific bid policies and procedures which require formal solicitation of bids for all major purchases. Such bid policies should include criteria on how bids are to be solicited and when formal advertising should be used. Documentation of bids received and the bid process should be retained. If sole source procurement is necessary, the district should retain documentation of these circumstances.

- C. Ensure written agreements are obtained for all leases outlining the terms of the agreement.

AUDITEE'S RESPONSE

A&B. *We have broken the school construction project down into various smaller projects*

that cost less than \$12,500 and did not formally bid many of these projects. The Superintendent did obtain phone bids but documentation of these bids was not kept. We will review our current policy to determine what changes will improve our bidding and record keeping procedures.

We will review our current procedures and determine how to adapt our procedures and policies related to large purchases. Also, we will examine what constitutes a “large purchase”.

- C. *We will implement this recommendation for all future leases.*

4.

Expenditures

- A. The school district has established formal payment procedures; however, the procedures are not always followed. Current policy requires an itemized invoice and a receiving document containing the signature of an authorized employee on file before a payment can be processed. In addition, the invoice must have been received in response to a purchase order approved by the Superintendent.

- 1) Several payments were processed without an original invoice or other adequate supporting documentation. One example included a payment in the amount of \$4,900 to an individual for dirt work at the new school. In addition, during June 1997 the district paid a state activity organization \$1,512 for registration and travel expenses for a student and a teacher to attend a national competition in San Diego, California. There was no invoice supporting the expenditure which outlined the costs associated with the trip. Also, a teacher was paid \$1,250 for administration of two grants. Time sheets were not provided to support the hours claimed. Other expenditures made for which there was no invoice or supporting documentation included \$925 for accounting services/training, \$370 for custodial services, \$325 for a teacher workday lunch, and \$240 for teacher gifts.

Employees may purchase equipment, materials and supplies, and group airline tickets and hotel accommodations directly and are reimbursed by the school district. There is often no approved purchase order or any other type of documentation supporting the expense claim such as an invoice or a copy of a credit card slip. For example, during April 1998, the Superintendent was reimbursed \$261 for hotel accommodations for a cheerleading competition. Payment was made without an approved purchase order or invoice from the hotel. Additionally, a district teacher was reimbursed \$277 for testing materials and books. A purchase order was prepared and approved, however, no invoices or documentation to support the payment was obtained.

- 2) Some payments were processed without a properly approved purchase order or documentation of advance authorization by the Superintendent.
- 3) Several invoices did not contain an indication of approval or receipt of goods or services. The Superintendent indicated he reviewed and approved all expenditures before payment; however, it appears this approval is not always formally documented.

To ensure the obligation was actually incurred and properly approved, all expenditures should be supported by properly approved purchase orders and original invoices containing indication that goods or services have been received.

- B. Reimbursements made to employees for travel expenses were seldom supported by adequate documentation of actual expenses incurred. Many employee expense reports did not contain sufficient information such as the date of trip, trip origin, destination, and purpose. In addition, invoices for hotels, phone calls, and other expenses reimbursed by the district could not be located. Without a detailed travel expense report including documentation supporting the expenses claimed, the district cannot determine the propriety of payments made for travel expenses.

Failure to require adequate supporting documentation for expenditures increases the risk that the school will pay for items not intended for school purposes.

- C. Some district personnel perform additional duties beyond the regular scope of work. Payments totaling approximately \$3,000 were made to employees for administering grants, coordinating the Parents as Teachers program, writing classroom curriculum, and custodial work. These employees were compensated for additional duties; however, the additional compensation was not reported on Forms W-2 or Forms 1099-MISC, and payroll deductions were not withheld from the payments.

Additionally, the school district does not always issue Forms 1099-MISC to individuals or unincorporated businesses which provide services to the district. Expenditures for services totaling approximately \$1,500 were paid and not reported to the Internal Revenue Service on a Form 1099-MISC.

The Internal Revenue Code (IRC) generally indicates individuals treated as employees should have all compensation reported on Forms W-2. The IRC further requires payments totaling \$600 or more in a year to non-employees and businesses which are not corporations be reported on Forms 1099-MISC.

- D. Expenditures totaling approximately \$500 were paid from school funds for gifts for the teachers and flowers for funerals. These expenditures do not appear to be necessary and prudent uses of public funds.

WE RECOMMEND the School Board:

- A. Require purchase orders be prepared for all payments and original invoices containing approval and indication of receipt of goods or services be on file before processing payments in accordance with district policy.
- B. Require detailed travel expense reports be submitted. These reports should include information such as trip date, origin, destination, and purpose; and should contain invoices or receipts to support expenses claimed for reimbursement.
- C. Report all additional compensation paid to employees and non-employees on Forms W-2 or 1099-MISC and amend previous years' Forms W-2 to reflect compensation amounts not originally included on the forms.
- D. Ensure expenditures are necessary and a prudent use of public funds.

AUDITEE'S RESPONSE

- A-C. *We will try to implement these recommendations as they pertain to improving our procedures.*
- D. *We feel that these types of expenditures are necessary and supportive of staff and school personnel morale. We will examine these procedures and try to formalize a policy on these types of expenditures.*

5. Personnel Contracts and Procedures
--

During our review of district personnel contracts and policies, we noted the following areas of concern:

- A. The school district does not have a formal written policy for vacation leave for twelve month employees. The Superintendent indicated he receives three weeks of vacation per year, and all other twelve month employees receive two weeks per year; however, this has not been formally documented in a board policy or individual employment contracts. In addition, leave records are not formally or centrally maintained for all employees. A new board policy, which has been presented to the board but not yet approved, indicates that administrators employed on twelve month contracts shall have vacation provided in their individual contracts; however no policy has been developed for support staff employees. Formal written policies should be established to clearly define employee benefits and to avoid any misunderstandings.

B. The district enters into written employment contracts with school district employees. Our review of employment contracts noted the following weaknesses:

- 1) The school district could not locate a written employment contract with the Superintendent covering fiscal years 1998 and 1999. In addition, there is no documentation of a written contract with the High School Principal for the 1997-98 school year.

A regular district teacher also served as the Parents as Teachers program coordinator. Payments to this individual were dependent upon the district funding received by the DESE; however, these terms were not outlined in a formal agreement between the school district and the employee.

The proposed new board policies for Superintendent and professional staff require that employment shall be secured through a written contract indicating days of service and compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities.

- 2) Teacher contracts are signed by the employee but not by the board president. Section 168.108, RSMo 1994 states that teacher contracts shall be signed by the permanent teacher and the president of the board of education.

C. During the year ended June 30, 1997, the district received \$3,038 of Exceptional Pupil Funding from the DESE. For that school year, the district claimed and received \$1,721 of exceptional pupil funding for a teacher's aide position. The district reported to the DESE that this individual worked one-half time, or 950 minutes per week, in the special education program. Per discussions with district personnel, this individual primarily performed duties for the special education teacher such as typing and clerical duties, and spent very little instructional time with the students. The district did not require this individual to maintain records of time worked to support the amounts reported to the DESE.

Section 162.975, RSMo 1994 states that a district shall receive exceptional pupil funding for professionals and paraprofessionals employed to work with handicapped children. Furthermore, the DESE guidelines for exceptional pupil funding authorize reimbursement for only those personnel required to implement special education and related services in a particular class. Individuals who perform secretarial, rather than instructional, duties do not appear to fall within these guidelines for authorized personnel to receive DESE exceptional pupil funding. Adequate record-keeping is necessary to ensure that the district only claims individuals and time worked which is allowable for reimbursement.

D. During the two years ended June 30, 1998, the district received proceeds from an insurance claim as a result of a fire at the school building on May 18, 1996. After the fire,

employees were instructed to list all items destroyed in their classrooms and offices, including personal items. Documentation in district files include lists of personal items lost by employees ranging from \$68 to \$1,236 each. The inventory listings submitted by the district to the insurance company included personal items, some of which were reimbursed to the district.

The Superintendent indicated that the district intends to reimburse employees for personal items lost which were covered by the insurance settlement. The district intends to make the payments after the district has paid all expenses related to the fire; however, no action has yet been taken. In order to resolve this matter, the school board should review the situation and determine how to handle the insurance proceeds received for personal items in a timely manner.

WE RECOMMEND the School Board:

- A. Establish formal written policies for twelve month employees' vacation leave. In addition, formal leave records should be maintained for all employees receiving sick and vacation leave benefits.
- B.1. Enter into written agreements with all employees that clearly detail the work to be performed and the compensation to be paid.
- 2. Ensure all teacher contracts are signed by the board president as required by state law.
- C. Ensure that state laws and the DESE guidelines are followed and adequate documentation is retained when submitting information for exceptional pupil funding. The board should file an amendment with the DESE for the amounts claimed for the 1996-97 school year.
- D. Resolve the issue of the fire insurance proceeds received for employees' personal items.

AUDITEE'S RESPONSE

- A. *We will develop a policy to cover leave for twelve month employees and design and maintain a procedure for keeping formal leave records on personnel and approved leaves.*
- B.1. *We will implement this recommendation.*
- B.2. *The approval of the offer of a contract in the Board minutes is a legally binding commitment but we will have the Board president sign all future personnel contracts to provide a more precise record of the personnel obligations of the district.*

- C. *The district no longer receives Exceptional Pupil Funding on the position in question. We will obtain from DESE the proper method of returning the difference in funding between a teacher aide and a clerk. Additionally, we will adjust, with guidance from DESE, any problems with the funding for this prior position.*
- D. *We will review the claims for validity and will reimburse the claims at the limits established by the insurance company for the loss of personal items.*

6.**Pupil Transportation Procedures**

The district operates a transportation system which transports approximately 113 students per day. In the year ended June 30, 1998, district buses served five routes traveling approximately 420 miles per day in addition to providing transportation for other district activities including field trips, after-school activities, and sports activities. Section 163.161, RSMo 1994 provides for state aid to be distributed to districts for transporting students. For the year ended June 30, 1998, the district received \$50,636 in state aid.

The district receives transportation state aid based on several factors, including the average number of students transported, number of miles traveled, and actual allowable transportation costs. The DESE has established guidelines, outlined in the *Missouri State Transportation Aid Document Preparation Manual* for districts to follow when applying for transportation aid. During our review of the district's procedures for tracking transportation information and applying for state aid, we noted the following concerns:

- A. Section 163.161, RSMo 1994 requires the DESE to approve, at the beginning of the school year, all bus routes and determine the total miles each district should have for effective and economical transportation of the pupils. For the 1997-98 school year, the DESE approved a total of 462 daily miles for the district's five bus routes and a daily vocational school route which is contracted from another school district.

The DESE guidelines for tracking actual mileage during the year require the district to obtain beginning and ending odometer readings for the school year. The district is to track actual disapproved route miles, such as activity trips, and subtract these miles from the total miles calculated from the odometer readings.

The district may not follow the DESE guidelines when reporting actual mileage for the school year. Odometer readings are not maintained and used to calculate actual miles traveled. Instead, the district claims actual mileage by multiplying the original approved daily mileage by the number of days in session. For the 1997-98 school year, the district claimed a total of 80,388 miles.

This procedure may not provide an accurate accounting for actual miles traveled during the year. Bus routes may change as students move to and from the district and when students are absent from school. Procedures should be implemented by the district to ensure that mileage information submitted to the DESE is accurate.

- B. The DESE requires school districts to take a count of students transported on the second Wednesday of each month during the school year. The monthly totals are used to calculate the eligible average daily transported (ADT) student to be reported on the application for state transportation aid.

Student counts reported by the district are not always accurate. We reviewed student counts taken by the district on September 10, 1997, and January 15, 1998 and compared the children claimed in the counts to attendance records for the count days. Six students claimed on the September count were either absent from school on the count day or were no longer enrolled in the district. In addition, ten students claimed on the January count were reported as absent on the count date. As a result of these errors, the district may receive more state aid than it is entitled to receive.

Procedures should be established to ensure student counts are accurate. One way to achieve this could be to compare student counts to attendance records on a test basis. To ensure the amount of state aid received is accurate, records should be maintained which adequately support the information reported on the application for state transportation aid.

WE RECOMMEND the School Board:

- A. Follow DESE guidelines for calculating actual mileage to be claimed on the application for state transportation aid.
- B. Ensure that student count reports used to calculate ADT accurately reflect the actual students transported on the transportation count days.

AUDITEE'S RESPONSE

- A. *We will review our procedures to ensure they comply with DESE guidelines for accurate reporting.*
- B. *We will check our attendance records more closely to ensure counts are accurate.*

7. Non-Resident Pupils

The school board is authorized by Section 167.151, RSMo 1994 to admit non-resident students and prescribe the tuition fee to be paid. The most recent school board policy on file, adopted on

June 12, 1994, indicates tuition rates shall be determined annually on the basis of the per-pupil cost for the preceding year. During the year ended June 30, 1998, the school district did not comply with its admissions policy for charging tuition to non-resident students attending the school district.

The district has an informal arrangement with the North Daviess R-III School District to allow residents of that district to attend the Pattonsburg R-II School District. This agreement has not been formally documented in writing. The agreement requires the Pattonsburg R-II School District to track the average daily attendance (ADA) for the North Daviess R-III School District residents. The North Daviess R-III School District in turn pays tuition to the Pattonsburg R-II School District at a rate of one-half of the state aid received per calculated non-resident ADA.

For the year ended June 30, 1998, 18 students from the North Daviess R-III School District attended the Pattonsburg R-II School District, at a calculated ADA of 13.36. The Pattonsburg R-II School District received \$20,456, or \$1,531 per calculated ADA, from the North Daviess R-III School District for serving its students. Pattonsburg R-II School District's per pupil cost for the 1996-97 school year was \$6,753. In addition to not complying with board policy, the district is not recovering its costs for the services provided to the North Daviess R-II School District students.

WE RECOMMEND the School Board either comply with or re-evaluate its admissions policy regarding recovery of costs incurred for educating non-resident students. In addition, the Board should enter into a written contract with North Daviess R-III School District regarding non-resident students attending the district schools.

AUDITEE'S RESPONSE

We will take this issue under study for future years and review the validity and financial concerns of this finding.

8.

Parents as Teachers (PAT) Program

The school district has been approved by the DESE to offer a parent education program under the Early Childhood Development Act (ECDA). The ECDA authorizes state funding to school districts that provide developmental screening and parent education to families with infants, toddlers, and preschool children. For the two years ended June 30, 1998, the school district received approximately \$1,300 for services provided under the Parents as Teachers (PAT) program. During our review of the Parents as Teachers Program, we noted the following concerns:

- A. According to district PAT documentation, the district served four families during the 1997-98 school year and three families during the 1996-97 school year. The families were each visited by the former PAT Coordinator one to four times during the school year. During an April 1998 review conducted by the DESE, it was noted that the district was providing

PAT services at a five percent level during 1996-97, as compared to the state average of 42 percent.

The school district currently does not have an operating PAT program. The former PAT Coordinator resigned at the end of the 1997-98 school year. The school district advertised the vacant PAT position in July 1998, but the position has not been filled.

Section 178.693, RSMo 1994 requires that if a district fails or is unable to offer an approved program of parent education, the district shall enter into a contract with another district, public agency or state approved not-for-profit agency offering an approved program of such services.

B. The school district is reimbursed by the DESE for personal visits and screening tests performed through the Parents as Teachers Program, as reported on the final report.

- 1) The district was reimbursed \$369 for nine personal visits during the 1997-98 school year and \$390 for nine visits during the 1996-97 school year. Each of these visits was supported by a personal visit report prepared by the former PAT Coordinator.

Responses to our confirmations and to questionnaires disseminated by a parent group to these families indicated three visits in the 1996-97 school year claimed by the district were not made or did not include instruction by the former PAT Coordinator. The former PAT Coordinator stated all of the visits claimed were made.

- 2) The district claimed and was reimbursed \$435 for 29 screening tests during the 1996-97 school year. No screening tests were claimed during the 1997-98 school year.

During our review of the 1996-97 screening tests, we found documentation for only 22 screening tests rather than the 29 tests claimed. The former PAT Coordinator indicated that the district documentation was accurate and that the number of screening tests recorded on the final report was apparently incorrect. After our fieldwork completion date, documentation for an additional six tests was located leaving one test for which documentation could not be found.

The DESE guidelines for the PAT program require the district to maintain records to verify the services provided. Accurate and complete records are necessary to support reimbursement claims.

C. The district had a verbal agreement with the former PAT Coordinator to pay her the full amount of the PAT funding received by the district. The screening tests noted above were

performed by the district's kindergarten and preschool teachers, rather than the PAT Coordinator. The former PAT Coordinator indicated that she has performed the screening tests in the past; however, she was not involved in the process during the 1996-97 year. Since the district pays the PAT Coordinator the amount of funding received from the DESE, it appears she was paid \$435 for services she did not provide.

- D. During the 1996-97 school year, the district applied for and received a \$4,690 Incentives for School Excellence Grant from the DESE to develop a PAT library. Items purchased with this grant included a laptop computer, books, games, and toys. The former PAT Coordinator was paid \$750 for administrative work on this grant which consisted of ordering the items. The books, games, and toys were stored in boxes and the laptop computer was not in the possession of the district on September 24, 1998. The former PAT Coordinator indicated a parent had checked it out in May 1998. Although we were able to confirm this with the parent, it was not documented on a sign-out sheet. Sign out sheets maintained by the former PAT Coordinator, document the use of the PAT library by only two other families on one occasion.

The final report for the incentives grant which was submitted to the DESE indicated that 25 students had participated in the grant program. In addition, the district reported that 87 percent of the families enrolled in the PAT program had utilized the library on a monthly basis. As noted in A. above, the district claimed serving only three families during the 1996-97 school year. The former PAT Coordinator was unable to locate the documentation to support the information reported to the DESE.

Adequate records of items checked out and returned to the library is necessary to document and track the disposition of all district assets. In addition, final reports submitted to the DESE should be accurate and supported by documentation.

WE RECOMMEND the School Board:

- A. Establish procedures to ensure that an effective PAT Program is in operation. If necessary, the board should contract with another entity to provide the services.
- B. Ensure final reports submitted to the DESE are accurate and adequately supported by documentation. If necessary, the board should file an amended final report, for the 1996-97 year, and resolve any overpayments for the screenings. In addition, the board should investigate the differences between the visits claimed and the parental responses and determine whether any money is due back to the state.
- C. Develop guidelines for paying individuals employed in the PAT program to ensure payments are made only for services provided. In addition, the Board should review payments to the former PAT Coordinator to determine if they were proper and whether any monies should be paid back to the district.

- D. Ensure instructional materials are made available to parents and complete records are maintained for the PAT library; including name of individual checking out the item, date received, and date returned. Return dates should also be established for items checked out of the library. In addition, the Board should ensure that final grant reports submitted to the DESE are accurate and adequately supported by documentation.

AUDITEE'S RESPONSE

- A. *We have begun the work on continuing and improving our PAT program.*
- B&C. *We will review this situation and take whatever action is determined to be necessary. The expanded PAT program will be designed with procedures to document visits made, services provided, and screenings done.*
- D. *We will design, in the expanded PAT program, a check-out system for instructional materials designated for the PAT program. The procedures designed for the expanded PAT program will insure that all future reports submitted to DESE will be accurate, complete, and signed by the personnel providing the service and the families receiving the services.*

9. Student Activity Funds

Individual school organizations have a separate activity account which includes the organization's fundraising monies. During our review of student activity fund procedures, we noted the following areas of concern:

- A. Prior to February 1998, the high school cheerleader organization fund was maintained outside of the school district's accounting system by the Superintendent's wife who was the cheerleader sponsor. During February 1998, the cheerleader sponsor turned the \$652 account balance over to the district.

During our review of the cheerleader account disbursements from April 1997 to June 1998, we noted the following:

- 1) While the cheerleading funds were held outside of the district, the district did not effectively monitor the activities and transactions of the account. Although the Superintendent indicated that he approved all expenditures made by the sponsor, this approval was not documented.

The district does not have a current written policy for accounting records, internal controls, and procedures for any student activity funds. Allowing district funds to be maintained outside of the school district without adequate monitoring increases

the risk of misuse of these monies. A proposed policy has been submitted to the school board which requires all funds, including student activity funds, be maintained under the jurisdiction of the superintendent and the school principals.

- 2) Disbursements were not always made by check. We noted instances in which disbursements were made from cash receipts on hand.

To adequately safeguard receipts and reduce the risk of loss or misuse of funds, deposits should be made intact and all disbursements should be made by check.

- 3) Adequate documentation was not retained to support many cheerleading expenditures. We noted purchases of trophies, shirts, and advertisements for which no supporting documentation could be found. For other expenditures reviewed, the only documentation available was a canceled personal check written by the cheerleader sponsor who was reimbursed by the cheerleading account. There was no invoice or other documentation to support the expenditures. Adequate documentation is necessary to ensure that all expenditures are reasonable and necessary. In addition, maintaining proper controls over cash disbursements decreases the risk of unauthorized disbursements.

B. In April 1998, the Superintendent was issued a check for \$3,344, the balance in the senior class account, to pay for senior trip expenses. An itemized expense report accounting for these funds and supporting documentation was not prepared or retained.

C. During July 1998, five students and a teacher attended the Future Homemakers of America (FHA) National Convention in New Orleans. The school board approved payment of travel expenses and registration for one student and the teacher. Although the cost of airline tickets for the remaining students, totaling \$896, was to be paid from the FHA student activity fund, the amount was charged to a district operating account instead. As a result district funds were used for this expense. Proper coding of student activity receipts and disbursements is necessary to ensure that the school district does not pay for expenditures that are the responsibility of a student organization.

WE RECOMMEND the School Board:

A.1. Ensure all student activity accounts are maintained by the school district and that there is adequate supervisory review of those accounts.

2. Require disbursements be made by check only.

A.3.

&B. Require adequate documentation be retained to support all expenditures made from the student activity funds. In addition, the board should request an accounting of monies paid

to the Superintendent for the senior class trip. Any monies not adequately accounted for should be reimbursed to the district.

- C. Ensure expenditures from student activity funds are properly coded to accounting records, and make necessary correcting entries to charge FHA expenditures to the appropriate fund.

AUDITEE'S RESPONSE

A&B. We will review our policy governing student activity funds. The Board has requested a financial report on the student activity fund balances to examine how these funds are managed.

- C. This coding error has been corrected.*

10. Board Policies and Procedures
--

- A. During our review of the minutes of school board meetings, we noted the following concerns:

- 1) The school board frequently holds closed meetings. When the board closes its meetings, a vote is taken and documented; however the minutes do not always indicate the reasons for closing the meeting. Section 610.022, RSMo 1994, requires that before any meeting may be closed, the question of holding the closed meeting shall be voted on at an open session. The vote and the specific reason listed in Chapter 610 for holding the closed meeting should be entered into the minutes. Although the reason for the closed meeting is usually posted publicly on the meeting agenda, it is not always documented in the regular minutes as required by Chapter 610.
- 2) The board minutes are prepared by the board secretary and approved by the board at subsequent meetings. The board minutes are not signed at the time of board approval, but are usually signed at the end of the fiscal year. The minutes from July 1997 to September 1998 had not been signed at the time of our review. The board minutes should be signed at the time they are approved by the board secretary as preparer and the president of the school board to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meeting.

- B. The district adopted the official Board of Education Policies and Regulations Manual developed by the Missouri School Board Association (MSBA) in October 1991. This manual includes policies and procedures relating to expenditures, bidding, budgets, and

personnel issues. At the time of our review, district personnel were unable to locate a copy of the district policy manual. As a result, it was unclear what district policies had been established by the school board. The school board is in the process of reviewing proposed new board policies. To adequately inform district personnel of district policies and to ensure compliance with the policies, these policies should be maintained by the district and made available to all employees.

WE RECOMMEND the School Board:

- A.1. Ensure minutes are prepared and retained for all closed meetings and that documentation is adequate to demonstrate compliance with state law.
- 2. Ensure board minutes are signed by the Board President and Board Secretary upon approval to attest to their completeness and accuracy.
- B. Ensure board policies are developed and maintained by the district.

AUDITEE'S RESPONSE

- A. *This recommendation will be implemented.*
- B. *We are in the process of approving a new policy service manual for district activities. After this is completed, we will ensure copies are maintained in the proper locations.*

11. General Fixed Asset Records and Procedures

- A. The school district has not established a permanent detailed record of the property owned by the district. The district requires teachers to prepare an annual inventory list of their classrooms; however, a supervisory review of changes made from year to year is not performed. Adequate property records are necessary to secure better internal control over property, provide a basis for determining proper insurance coverage, and provide assurance to the public that assets purchased with school monies are being utilized by the school district.

Without these records, the district does not have a reliable record of property owned. In addition, the district is unable to prepare and present in its financial statements a statement of changes in general fixed assets or a general fixed assets account group, as required by generally accepted accounting principles.

- B. Prenumbered inventory tags that identify fixed asset items as "Property of Pattonsburg R-II School District" are not utilized by the district. Prenumbered tags, when affixed to property items, allow for identification of the property in the records and limit the potential

for personal use of school district assets.

WE RECOMMEND the School Board:

- A. Require general fixed asset records be maintained on a current basis.
- B. Ensure prenumbered inventory tags that label each item as “Property of Pattonsburg R-II School District” are attached to all property and equipment.

AUDITEE’S RESPONSE

A&B. We are in the process of developing records of fixed assets owned by the District. We would like to develop an inventory system which would utilize tags labeled with a bar coding system to better maintain our inventories in an accurate manner.

This report is intended for the information of the school board and district's management. However, this report is a matter of public record and its distribution is not limited.

* * * * *